

SCI INCOME TRUST

University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6

2003 ANNUAL REPORT



Beautyrest
MATTRESS COLLECTION
The Bowling Ball Mattress.™



NEW GENERATION
BackCare
MATTRESS COLLECTION
Better Support. Better Sleep.™



DREAMSCAPES
MATTRESS COLLECTION
Escape From The Ordinary.™



BEAUTYSLEEP
MATTRESS COLLECTION
Exceptional Comfort and Value.™



SIMMONS
ADJUSTABLE BED



säng
by SIMMONS
Sleeping Never Felt So Good.™



Annual General Meeting

Thursday, May 27, 2004
at 10:00 a.m.
The Simmons Showroom
Suite 107, Toronto International Centre
6900 Airport Road, Mississauga, Ontario

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Reported herein are your Trust's results for 2003.

Revenue for the year was \$129,032,000 compared to \$130,870,000 for 2002 and net income for 2003 was \$9,364,000 or \$1.21 per unit compared to the net income of \$11,422,000 or \$1.49 per unit achieved in 2002.

Cash distributions to unitholders for the year were \$7,883,000 or \$1.02 per unit compared to \$9,994,000 or \$1.30 per unit for the previous year.

While bedding unit volumes were down only 3% from last year, increasingly aggressive competition coupled with retail pricing pressures, inflationary cost increases and increased pension expenses put downward pressures on margins and profitability. As a result, Simmons' performance this year was disappointing when compared to 2002.

A very soft first quarter performance, which was influenced by world events and the public health concerns in Ontario, further exacerbated the situation. This, coupled with continuing economic uncertainties, caused us to reduce our monthly distribution from \$0.10 per unit to \$0.08 per unit, effective with the May 15, 2003 distribution. Since that time we have distributed \$0.08 per unit on a regular monthly basis.

Our performance has steadily improved with each succeeding quarter. The fourth quarter was strong with bedding volumes and sales exceeding last year's fourth quarter by 2.5% and 5%, respectively.

We completed the year without any labour disruptions and we successfully negotiated a new four year collective agreement with the union representing our Calgary employees. Currently we are in collective bargaining with the union representing our Montreal employees and will also be bargaining with the union representing our Vancouver employees this fall.

The Regina distribution centre, which we closed in December, was subsequently sold in February of 2004. A more cost effective and improved level of customer service and distribution is now being provided by our Calgary operation throughout the Prairies.

At the January 2004 Canadian Home Furnishings Market in Toronto, which is regarded by many in our Industry as the barometer for business in the upcoming year, we received orders for many new floor placements from existing and new customers.

Our world famous Simmons brand name bedding products – *Beautyrest*[®], *BackCare*[®] and *Beautysleep*[®] – continue as our flagship products while our value-priced pocketed coil product *Dreamscapes*[®], which we introduced in January of 2003, has been an unqualified success.

The ObusForme line-up, which we manufacture under license, has been re-merchandised for 2004 and is continuing to be popular with our customer base.

Newly introduced at the show was *säng*[™], a new memory, or viscoelastic, foam core product developed by Simmons Company (USA). This product was also very well received by our customers.

With these products, coupled with the new expanded customer programs already in place, we look forward to improved performance in 2004.

The independently owned and operated Simmons Mattress Galleries and Simmons Sleep Centres achieved double digit growth in 2003 over 2002 on a same store basis and the planned expansion of both these groups is an ongoing initiative.

Our licensing activities are an important opportunity to give the Simmons brand names more exposure in the marketplace. During 2003, we added two new Canadian manufacturing licensees, one whose products include crib mattresses and crib-related products and the other licensee, general bedding accessories.

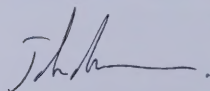


In December 2003, Fenway partners, the major shareholder in Simmons Company (USA), sold most of its ownership interest in that company to Thomas H. Lee partners. This transaction will not have any direct impact on the operations of SCI Income Trust or its wholly-owned operating company, Simmons Canada Inc. In connection with a management led buyout of Simmons Canada from Simmons Company (USA) in 1990, Simmons Canada entered into a license agreement with Simmons Company (USA). The agreement provides an exclusive and perpetual license for the use in Canada of all patents, proprietary technology and trade marks (the "Intellectual Property") of Simmons Company (USA) and Simmons I.P. Inc., a subsidiary of Simmons (USA), related to its core bedding and upholstered products.

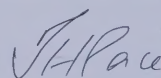
Our website at www.simmonsCanada.com is continuously updated to reflect the changes in our product lineup. The primary objectives of the site are to educate consumers on the features and benefits of our products and our company, and to assist consumers in making a purchase. In 2003, the website had approximately 650,000 server requests, a 48% increase over the prior year.

The Simmons' "Human Bowling Ball" television commercial, which was aired during the year, met with favourable feedback from Canadian consumers and retailers alike. This tongue in cheek creative execution, which was designed to increase ownership of the "original independent pocket coil", will air in major markets in Canada throughout 2004.

We would encourage you to read the Management's Discussion and Analysis and the consolidated financial statements with their accompanying notes contained in the body of this Annual Report. In closing we would like to thank our customers, suppliers, employees and unitholders for their continued support in 2003.



John B. Newman
Chairman of the Board
Simmons Canada Inc.



Terry H. Pace
President and Chief Executive Officer
Simmons Canada Inc.



The following discussion provides a review of the activities, results of operations and financial condition of SCI Income Trust (the "Trust") for the years ended December 31, 2003 and 2002 and for the fourth quarters ended December 31, 2003 and 2002. The results for the Trust are dependant entirely on the operations of Simmons Canada Inc. ("Simmons") the operating company wholly owned by SCI Income Trust.

This Management Discussion and Analysis should be read in conjunction with the consolidated financial statements and accompanying notes.

Fourth Quarter 2003

Quarterly Financial Highlights

		2003				
In Thousands		Q1	Q2	Q3	Q4	Total Year
Revenue		\$ 29,154	\$ 33,001	\$ 37,650	\$ 29,227	\$ 129,032
Gross profit		7,876	9,653	11,811	8,743	38,083
		27.0%	29.3%	31.4%	29.9%	29.5%
Net income		1,379	2,370	3,596	2,019	9,364
Net income per unit	- basic	\$ 0.18	\$ 0.31	\$ 0.47	\$ 0.26	\$ 1.21
	- diluted	0.18	0.31	0.47	0.26	1.21
Cash distributions per unit	- basic	\$ 0.30	\$ 0.24	\$ 0.24	\$ 0.24	\$ 1.02
	- diluted	0.30	0.24	0.24	0.24	1.02
		2002				
In Thousands		Q1	Q2	Q3	Q4	Total Year
Revenue		\$ 31,064	\$ 34,731	\$ 37,255	\$ 27,820	\$ 130,870
Gross profit		9,763	11,138	11,969	7,997	40,867
		31.4%	32.1%	32.1%	28.7%	31.2%
Net income		2,715	3,268	3,608	1,831	11,422
Net income per unit	- basic	\$ 0.35	\$ 0.43	\$ 0.47	\$ 0.24	\$ 1.49
	- diluted	0.35	0.43	0.47	0.24	1.48
Cash distributions per unit	- basic	\$ 0.25	\$ 0.35	\$ 0.30	\$ 0.40	\$ 1.30
	- diluted	0.25	0.35	0.30	0.40	1.30

Sales

Sales revenue of \$29,227,000 for the fourth quarter of 2003 was 5% better than 2002 as the mix of products sold improved, pricing per unit improved on the premium *Beautyrest*[®] product and overall volumes improved. Driving the mix of products sold was higher volumes of the premium priced *Beautyrest*[®] pocket coil and the value priced *Dreamscapes*[®] pocket coil.

Overall bedding unit volumes also increased by 2.5% over 2002.

This quarterly volume performance versus last year was also the strongest of any of the four quarters.

On a per unit basis, revenues on the *Beautyrest*[®] product category were also favourable in the quarter compared to 2002 partly related to product line clearances in the fourth quarter of 2002.

Margins

Gross profit of \$8,743,000 was up 9% versus prior year and as a percent of sales improved 1.2 percentage points as volumes grew, mix improved and manufacturing costs improved.



Net Income

Selling, general and administrative expenses were flat compared to 2002 despite sales revenue increasing 5%. Higher freight costs from higher volumes coupled with inflationary cost increases were more than offset by reduced costs for incentive based payments and reduced administration staff costs.

The Company announced the closure of its Distribution centre in Regina on October 1, 2003. This decision was made in order to further consolidate operations in the Prairies through our factory in Calgary thus increasing efficiencies and customer service. Accordingly, a net charge was incurred in the quarter of \$32,000 for the disposal of the distribution centre which was sold on February 2, 2004.

Interest expense was lower than 2002 as the operating loan was zero in two of the three months and the demand loan was reduced, as scheduled.

Net income in the fourth quarter of \$2,019,000 was up 10% over the same quarter in 2002 mainly attributable to stronger volumes and favourable mix of product sold.

Net income per unit for the fourth quarter of 2003 was \$0.26 versus 2002 of \$0.24.

Distributions to Unitholders

Despite the improvement in fourth quarter net income versus last year, distributions were significantly lower in the fourth quarter of 2003. Prior year's distributions declared in the fourth quarter included a special distribution of \$0.10 per unit in addition to the regular monthly distribution of \$0.10 per unit.

Total distributions to unitholders in the fourth quarter of 2003 were \$1,855,440 (\$0.24 per unit) compared to \$3,087,800 (\$0.40 per unit) in 2002. This was in line with net income per unit of \$0.26 in the fourth quarter of 2003.

Liquidity

Working capital at December 31, 2003 of \$16,606,000 was basically unchanged from the third quarter ended September 30, 2003 of \$16,733,000.

Current assets of \$29,692,000 were down significantly from the third quarter balance of \$32,596,000. This was mainly a result of lower accounts receivable for the fourth quarter as compared to the third quarter of 2003 as expected due to lower sales volumes.

Current liabilities of \$13,086,000 have also been reduced compared to the third quarter of 2003 of \$15,863,000 mainly related to reductions in bank loans.

Capital Expenditure Related Payments

Capital expenditure related payments for the fourth quarter of 2003 of \$499,000 were 16% less than the prior year fourth quarter of \$593,000 reflecting the Company's goal of continued tight management of capital requirements. Included in these payments were instalment payments totaling \$75,000 (\$75,000 in 2002) on the demand instalment loan payable to fund an earlier expansion at the Calgary facility in 2000.



Fiscal Year 2003

Yearly Financial Highlights

The following is a summary of selected consolidated financial information of the Trust for the three years ended December 31, 2003, 2002 and 2001, in thousands of dollars, except for the per unit amounts:

In Thousands	Year Ended		
	December 31, 2003	December 31, 2002	December 31, 2001
Revenue	\$ 129,032	\$ 130,870	\$ 120,135
Net income before tax	\$ 11,733	\$ 14,722	\$ 7,084
Net income	\$ 9,364	\$ 11,422	\$ 6,583
Net income per trust unit - basic	\$ 1.21	\$ 1.49	\$ 0.86
- diluted	1.21	1.48	0.86
Total assets	\$ 88,133	\$ 88,083	\$ 87,546
Total long term liabilities	\$ 7,630	\$ 7,071	\$ 7,301
Cash distributions per trust unit			
- basic	\$ 1.02	\$ 1.30	\$ 1.02
- diluted	1.02	1.30	1.02

Sales

The Company faced a challenging year in 2003. Bedding unit volumes were down 3% compared to 2002 and revenue of \$129,032,000 for the year ended December 31, 2003 was down 1% versus last year.

The first half of 2003 was influenced by world events including the SARS outbreak which had a significant negative economic impact on the large Ontario marketplace and on our sales. In addition to this, there was increasingly aggressive competition coupled with retail pricing pressures.

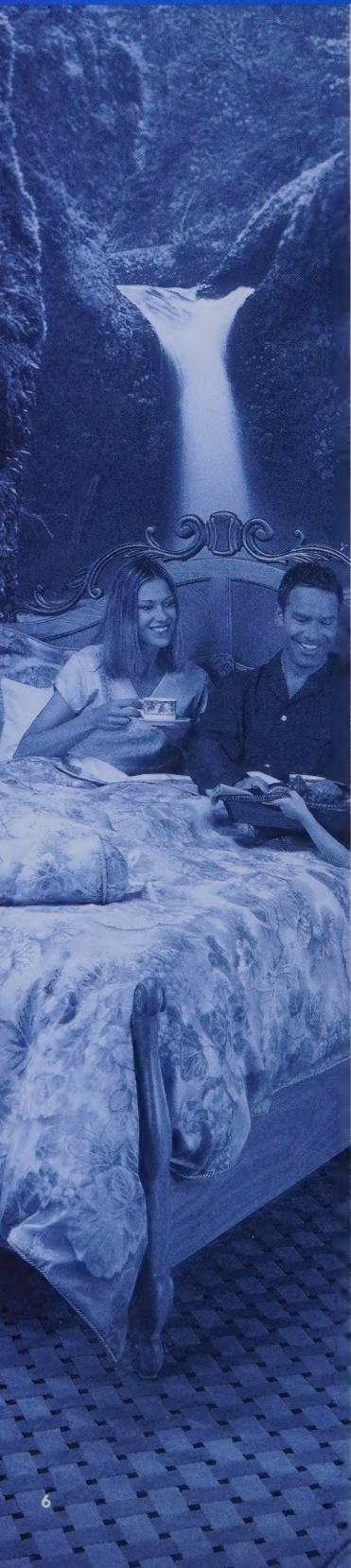
The flagship *Beautyrest*® pocket coil product maintained its share of the business but aggressive promotion in the increasingly competitive market resulted in slightly unfavourable revenue on a per bedding unit basis compared to 2002.

Increased competitive activity was experienced not only through aggressive pricing but also with an increase in competitive pocket coil product offerings. The Company's launch of the *Dreamscapes*® value priced pocket coil in 2003 was successful and provided a much broader pocket coil program range.

Summarizing the decline in revenue over 2002, the mix of products sold shifted favourably in 2003 compared to 2002 to the higher priced pocket coil product group (*Beautyrest*® and *Dreamscapes*®). However, unfavourable overall volumes coupled with aggressive promotional pricing combined to exceed the mix gain.

On a quarter-by-quarter basis, revenues were lower than last year for the first half of the year. The third and fourth quarters of 2003 showed improvement exceeding 2002 (see Table on page 3) as promotional pricing issues lessened and bedding unit volumes recovered.

The Company's relationship as the main bedding supplier in Canada to IKEA ended in November of 2003 when Management was unwilling to meet IKEA's new pricing requirements. This decision had minimal impact on 2003 volumes. Going forward, this lost volume has essentially been replaced for 2004 with new supply arrangements to other customers and, as a result, minimal bottom line impact, if any, is expected from the loss of the IKEA volume.



Margins

Gross profit for 2003 as a percent of sales decreased 1.7 percentage points. Margins as a percent of sales were negatively impacted due to aggressive promotional pricing coupled with inflationary cost increases and increased pension and warranty expense.

On a dollar basis, gross profit for 2003 of \$38,083,000 was down 7% compared to 2002 principally as a result of the items mentioned in the above paragraph coupled with lower volumes.

Net Income

Selling, general and administrative expenses increased \$428,000 or 1.9% over 2002. Higher freight costs due to mix plus increased marketing costs to reposition the Company's product offerings including new advertising were basically offset by lower costs for incentive based payments and reduced administrative staff costs.

During 2003, the Company recognized a pension expense of \$1,300,000 (2002 - \$765,000) for its defined benefit pension plan, defined contribution plan and the retirement compensation arrangement ("RCA"). Further details are available in Note 6 to the consolidated financial statements.

All of the above resulted in net income in 2003 of \$9,364,000 (\$1.21 per unit), a decrease of 18% over net income of \$11,422,000 (\$1.49 per unit) in 2002.

Distributions to Unitholders

As approved by unitholders at the 2001 annual general and special meeting held on May 23, 2002, distributions to unitholders changed from quarterly to monthly beginning with the July 15, 2002 distribution.

Total distributions to unitholders in 2003 were \$7,883,000 (\$1.02 per unit) compared to \$9,994,000 (\$1.30 per unit) in 2002. The decrease in distributions reflects the reduced net income in the year.

The Board of Directors, working with the Company, reduced monthly distributions from \$0.10 per unit to \$0.08 per unit after the very soft first quarter as distributions paid to the end of March were \$0.30 per unit while net income was \$0.18 per unit. By the end of the year, distributions paid of \$1.02 per unit were more in line with net income of \$1.21 per unit.

The taxable distributions to unitholders in 2003 were \$0.97 comprised of \$0.21 of dividend income and \$0.75 of other taxable income. In 2002, taxable distributions to unitholders were \$0.95 comprised of \$0.24 of dividend income and \$0.70 of other taxable income.

Further details are available in Note 9 to the consolidated financial statements.

Liquidity

Working capital at December 31, 2003 of \$16,606,000 was higher than prior year of \$13,653,000.

Current Assets were up slightly compared to December 31, 2002.

Accounts receivable were higher than 2002 as sales in the fourth quarter were also higher than last year. Inventory levels were down slightly on the prior year reflecting timing. Prepaid expenses were also lower than December 31, 2002 mainly a result of product repositioning costs that were capitalized at the end of 2002 in advance of their market introductions in early 2003.

Current liabilities have been reduced 14% compared to December 31, 2002 mainly related to reductions in the bank loans and also due to a reduced accrual for year end distributions to unitholders this year compared to the December 2002 accrual.

The operating loan was reduced to zero at year end and further the demand loan related to the 2000 expansion of the Company's Calgary facility was reduced, as scheduled.

During 2003 the Company provided cash funding of \$1,600,000 for its defined benefit pension plan, defined contribution plan and the retirement compensation arrangement ("RCA") (2002 - \$500,000).

These amounts were determined in discussion with the Company's actuaries and are based on future investment growth assumptions and projected benefit obligations. The increase in funding levels is basically a result of market declines in the investment portfolios.

Funding is expected to increase again in 2004 to \$2,600,000 in order to meet the unfunded liability of the defined benefit and RCA plans.

Further details are available in Note 6 to the consolidated financial statements.

Distributions payable to unitholders were higher at the end of 2002 as there was a higher accrual related to a special distribution of \$0.10 paid out in January 2003 in addition to the scheduled monthly distribution of \$0.10.

Capital Expenditure Related Payments

Capital expenditure related payments for 2003 of \$2,449,000 (Note 9 to the consolidated financial statements) were less than prior year of \$3,037,000 reflecting the Company's efforts to tightly monitor capital spending while still managing to purchase vital equipment. Expenditures were primarily upkeep and maintenance related. Included in these payments were instalment payments totaling \$300,000 (\$300,000 in 2002) on the original \$1,500,000 demand instalment loan payable to fund an earlier expansion in Calgary.

Accounting Policies

The above analysis and discussion of the Trust's financial condition and results of operations are based upon its consolidated financial statements that have been prepared in accordance with Canadian Generally Accepted Accounting Principles. A summary of significant accounting policies used by the Trust are set out in Note 1 of the consolidated financial statements. Significant changes made in accounting policies during the past two years and expected to be made in 2004 financial year are commented on below.

Effective January 1, 2002, Generally Accepted Accounting Principles for the recognition, measurement, presentation and disclosure of goodwill and other intangibles changed. These standards require that goodwill and certain other intangible assets will no longer be amortized and will be tested for impairment at least annually and written down only when impaired. These standards were adopted by the Trust beginning January 1, 2002. Had these standards been applied for the year ended December 31, 2001, net income would have been increased by \$820,000, net of income taxes of \$280,000. In addition, the standard allowed for intangible assets under certain circumstances to be reclassified apart from goodwill. The Trust reclassified \$25,416,000 of its goodwill to license agreement under the guidance of this Notice.

Effective January 1, 2004, the Trust will adopt the policy of expensing the fair value of vested stock options issued under its employee stock option plan. This policy will be adopted retroactively without restatement, and accordingly, will record a charge to unitholders equity on January 1, 2004 of \$223,000 related to options granted on or after January 1, 2002.

Accounting Guideline-13, Hedging Relationships, established stringent, new criteria that must be met before hedge accounting can commence and is effective for the Trust January 1, 2004. The criteria includes identification, designation and formal documentation of hedging relationship and assessment of the effectiveness of the hedging relationship both at inception of the hedging relationship and on an ongoing basis over the term of the hedging relationship. The Trust has developed documentation and policies in order to comply with these new requirements for 2004.

Critical Accounting Estimates

Warranty

The Company's products are subject to warranties ranging from one to ten years with a majority of the claims incurred in the first year.

The Company estimates the present value of its potential warranty claims based on historical data and is accruing for its potential warranty liability.

Pensions

The Company expense plus the estimated surplus/liability in the pension plan is determined using reasonable estimates of a) future returns on plan assets (to determine investment growth in the plan) and b) future growth in pension benefit obligations.

Both of these estimates are determined based on discussions with the Company's actuaries and they are based on reasonable assumptions of long term growth rates.

The Company estimates a long term rate of return on plan assets of 6.8% as of December 31, 2003. The Company estimates a discount rate in determining long term benefit obligations of 6.0% as of December 31, 2003.

Further details are available in Note 6 to the consolidated financial statements.

Related Party Transactions

The Company does not have any related party transactions. Also see below on contractual obligations for a discussion of the Company's relationship with Simmons Company (U.S.A.). SCI Income Trust and the Company are not subsidiaries of Simmons Company (U.S.A.).

Contractual Obligations

Noted below is a table outlining the Company's contractual obligations as of December 31, 2003 and a brief explanation of the obligations.

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
Long term debt	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Capital lease obligations	\$ 3,493	\$ 1,381	\$ 1,859	\$ 253	\$ 0
Operating leases (including property)	\$ 19,827	\$ 2,542	\$ 6,521	\$ 2,095	\$ 8,669
Purchase obligations	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Other long term obligations	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total contractual obligations	\$ 23,320	\$ 3,923	\$ 8,380	\$ 2,348	\$ 8,669

Lease Obligations

The Company leased a majority of its machinery and equipment capital requirements in 2003. The Company also leases automobiles for the sales force and executives. The Company also leases all of its manufacturing facilities except the facility in Calgary which is owned.

Further details are available in Note 10 to the consolidated financial statements.

Purchasing Obligations

The Company purchases raw materials and supplies in the ordinary course of business. The Company does not have any formal purchase contracts with suppliers guaranteeing minimum purchase quantities and/or pricing.

Foreign Exchange

The Company enters into contractual agreements to hedge exposures in foreign exchange. The Company follows a policy of not using financial instruments for speculative purposes and has procedures in place to monitor and control this.

Approximately 25% of the Company's raw material purchases are denominated in U.S. dollars. To protect against fluctuations in the U.S. dollar, the Company hedges a significant percentage of these U.S. dollar requirements by entering into foreign exchange forward contracts or foreign exchange collar options with a large Canadian financial institution.

As a result of this policy the Company has been able to minimize any losses due to a weakening Canadian dollar or strengthening U.S. dollar. The Company estimates in its budgeting process a savings in U.S. denominated raw material purchases for 2004 of \$1,000,000 vs. 2003 costs.

Due to the 22% appreciation in 2003 of the Canadian dollar vis-à-vis the U.S. dollar, the Company has outstanding contracts that, if cancelled on December 31, 2003, would result in a settlement loss of \$845,000. The Company believes the hedging policy is effective and does not intend to settle the contracts until maturity which will result in the same overall settlement value as that contained in the Company's 2004 business plan.

A summary of these contractual obligations is included in Notes 1 (n) and 12 (c) of the consolidated financial statements.

Relationship with Simmons Company (U.S.A.)

In connection with a management led buyout of Simmons Canada from Simmons Company (U.S.A.) in 1990, Simmons Canada entered into a license agreement with Simmons Company (U.S.A.). The agreement provides an exclusive and perpetual license for the use in Canada of all patents, proprietary technology and trade marks (the "Intellectual Property") of Simmons Company (U.S.A.) and Simmons I.P. Inc., a subsidiary of Simmons Company (U.S.A.), related to its core bedding and upholstered products.

Simmons Canada pays a royalty of 0.4% of sales for the licensing of the Intellectual Property. During the year ended 2003, the Company recorded a royalty expense to Simmons Company (U.S.A.) of \$533,000.

The Company also pays Simmons Company (U.S.A.) an annual technology fee of \$150,000, adjusted annually for CPI increases since 1994, in respect of its technology and marketing information. During the year ended 2003, the Company recorded a technology fee expense to Simmons Company (U.S.A.) of \$175,000.

Risks and Uncertainties

The Company has identified four significant areas of risk.

1) *Concentration of business with few customers (retailers)*

Four major customers comprise 51% of revenue in 2003. Management believes servicing of customers, providing high quality, developing new products and providing the best pricing are critical to maintaining business. These objectives are well publicized and practiced within the Company.

2) *Increased pocket coil competition*

One of the Simmons Company (U.S.A.) pocket coil patents is set to expire in April of 2004 while several other related patents are due to expire over the period 2005 through 2015. Competitors have already introduced limited forms of pocket coil offerings over the last few years and the expiry of existing patents over the next eleven years may lead to an increase in competitive pocket coil offerings.

The Company remains the leader in pocket coil technology and manufacturing know-how and has new patents in the application process intended to further strengthen this leadership role.

3) *Chinese imports*

The Company is closely monitoring the potential of offshore product from China being imported into Canada. While the cost of freight and the stronger Canadian dollar are barriers, the Company believes low cost imports may gain ground based on low price points. The Company does not believe this will have a large impact on the core business.

4) *Employee base*

The Company's success is related to its ability to retain and/or attract qualified and motivated personnel to face the issues confronting the business. The Company has been successful in this pursuit.

Outlook

2003 was a challenging year compared to 2002, primarily as a result of the weak start to the year.

Management anticipates that 2004 will have a somewhat better start than 2003 and that the year, in general, will show improvements over the prior year as the Company has its product line-up in place and customer programs are established with all of our accounts.

The Company will continue to aggressively pursue new products and new market opportunities.

The Company will continue to focus on equipment automation and reduction of overhead costs and will continue to review expansion opportunities for the Simmons Mattress galleries and Simmons Sleep Centres concepts.

Forward-Looking Statements

This document contains forward-looking statements, which are subject to certain risks, uncertainties and assumptions. A number of factors could cause actual results to differ materially from the results discussed in these forward-looking statements, and there is no assurance that actual results will be consistent with these forward-looking statements. As with all forward-looking statements, due care and caution should be employed to ensure appropriate interpretation is made.

Additional Information

Additional information related to the Company, including the Annual Information Form ("AIF"), is available on SEDAR at www.sedar.com or information is also available at the Company website at www.simmonsCanada.com

Management of Simmons Canada Inc., as administrator of SCI Income Trust, is responsible for the preparation, integrity and fair presentation of the consolidated financial statements and other information in the annual report. The consolidated financial statements have been prepared using generally accepted accounting principles in Canada including, where applicable, amounts based on management's best estimates. By their nature, these estimates are subject to measurement uncertainty and actual results could differ from these estimates. Financial information elsewhere in this annual report is consistent with that in the consolidated financial statements.

Simmons Canada Inc. maintains a system of internal controls designed to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded from loss or unauthorized use and financial information is relevant, reliable and is presented on a timely basis.

The board of directors of Simmons Canada Inc. is responsible for ensuring that management fulfils its responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The board of directors carries out its responsibility principally through its audit committee.

The audit committee consists of non-management directors and is appointed by the board of directors. The audit committee has reviewed the consolidated financial statements with management and the auditors and has recommended their approval by the board of directors.

KPMG LLP, an independent firm of Chartered Accountants appointed by the board of directors, has examined the consolidated financial statements in accordance with Canadian generally accepted auditing standards and its report is included herein.



Terry H. Pace
President and Chief Executive Officer
Simmons Canada Inc.

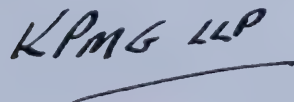


Gerald T. Costigan
Vice-President and Chief Financial Officer
Simmons Canada Inc.

We have audited the consolidated balance sheets of SCI Income Trust as at December 31, 2003 and 2002 and the consolidated statements of income, unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Toronto, Canada
February 20, 2004

SCI Income Trust

Consolidated Balance Sheets

December 31, 2003 and 2002 (In thousands of dollars)

	2003	2002
Assets		
Current assets:		
Cash and short-term investments (note 2)	\$ 1,854	\$ 1,462
Accounts receivable	20,995	19,260
Inventories (note 3)	5,134	5,650
Prepaid expenses	1,542	2,453
Property, plant and equipment held for sale (note 5)	167	—
	<u>29,692</u>	<u>28,825</u>
Long-term accounts receivable (note 4)	548	968
Property, plant and equipment (note 5)	16,090	16,683
Employee future benefits (note 6)	426	145
Deferred finance charges	2,020	2,105
License agreement	25,416	25,416
Goodwill	13,941	13,941
	<u>\$ 88,133</u>	<u>\$ 88,083</u>
Liabilities and Unitholders' Equity		
Current liabilities:		
Operating loan (note 7)	\$ —	\$ 1,325
Demand instalment loan (note 7)	575	875
Accounts payable and accrued liabilities	11,051	11,126
Income taxes payable	841	302
Distributions payable to unitholders (note 9)	619	1,544
	<u>13,086</u>	<u>15,172</u>
Capital lease obligations (note 10)	2,112	2,027
Future income taxes (note 11)	5,518	5,044
Unitholders' equity (note 8)	67,417	65,840
Commitments and contingencies (notes 10 and 12)		
	<u>\$ 88,133</u>	<u>\$ 88,083</u>

See accompanying notes to consolidated financial statements.

Approved on behalf of SCI Income Trust by its attorney, Simmons Canada Inc.:



Randall G. Provost
Director and Chairman of the Audit Committee
Simmons Canada Inc.



Terry H. Pace
President, Chief Executive Officer and Director
Simmons Canada Inc.

SCI Income Trust

Consolidated Statements of Income

Years ended December 31, 2003 and 2002 (In thousands of dollars, except per unit information)

	2003	2002
Revenue	\$ 129,032	\$ 130,870
Cost of products sold	90,949	90,003
	38,083	40,867
Expenses:		
Selling, general and administrative	23,202	22,774
Interest	220	215
Interest on capital leases	277	326
Amortization:		
Plant and equipment	2,566	2,610
Deferred finance charges	85	85
	26,350	26,010
Income before the undernoted	11,733	14,857
Restructuring and closure costs	-	135
Income before income taxes	11,733	14,722
Income taxes (note 11):		
Current	1,895	2,750
Future	474	550
	2,369	3,300
Net income	\$ 9,364	\$ 11,422
Net income per unit:		
Basic	\$ 1.21	\$ 1.49
Diluted	1.21	1.48

See accompanying notes to consolidated financial statements.

Consolidated Statements of Unitholders' Equity

Years ended December 31, 2003 and 2002 (In thousands of dollars)

	2003	2002
Unitholders' equity, beginning of year	\$ 65,840	\$ 63,922
Issuance of trust units (note 8)	96	490
Net income	9,364	11,422
Distributions to unitholders (note 9)	(7,883)	(9,994)
Unitholders' equity, end of year	\$ 67,417	\$ 65,840

See accompanying notes to consolidated financial statements.

SCI Income Trust

Consolidated Statements of Cash Flows

Years ended December 31, 2003 and 2002 (In thousands of dollars)

	2003	2002
Cash provided by (used in):		
Operating activities:		
Net income	\$ 9,364	\$ 11,422
Items not affecting cash:		
Amortization:		
Plant and equipment	2,566	2,610
Deferred finance charges	85	85
Gain on sale of property, plant and equipment	(18)	(20)
Employee future benefits	(281)	250
Future income taxes	474	550
	12,190	14,897
Change in non-cash operating working capital	688	406
	12,878	15,303
Financing activities:		
Issuance of trust units	96	490
Distributions to unitholders	(8,808)	(8,987)
Decrease in operating loan	(1,325)	(2,888)
Repayment of demand instalment loan	(300)	(300)
Repayment of capital lease obligations	(1,601)	(1,550)
	(11,938)	(13,235)
Investing activities:		
Purchase of property, plant and equipment	(617)	(1,207)
Proceeds from sale of property, plant and equipment	69	20
	(548)	(1,187)
Increase in cash and cash equivalents	392	881
Cash and cash equivalents, beginning of year	1,462	581
Cash and cash equivalents, end of year (note 2)	\$ 1,854	\$ 1,462
Supplemental cash flow information:		
Interest paid	\$ 182	\$ 229
Interest paid on capital leases	277	326
Income taxes paid	1,356	1,817
Dividends and interest received	26	28
Supplemental disclosure of non-cash financing and investing activities:		
Acquisition of property, plant and equipment through capital leases	1,574	785

See accompanying notes to consolidated financial statements.

Years ended December 31, 2003 and 2002 (Tabular amounts in thousands of dollars, except per unit information)

SCI Income Trust (the "Trust") is an open-ended, limited purpose trust established under the laws of the Province of Ontario by a Declaration of Trust as of August 22, 1997, as amended and restated as of October 2, 1997 and as further amended on May 21, 1998 and on May 23, 2002. The Trust qualifies as a mutual fund trust for the purposes of the Income Tax Act.

The Trust was created to invest in securities of Simmons Canada Inc. ("Simmons"). The Trust holds all the outstanding common shares of Simmons and \$50,000,000 principal amount of 12% unsecured subordinated notes of Simmons (note 1(a)).

Simmons, which acts as Administrator of the Trust, operates within Canada in the manufacture and sale of mattresses, upholstery and furniture, which is its only line of business.

1. Significant accounting policies:

The consolidated financial statements of the Trust have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

(a) Basis of presentation:

The consolidated financial statements of the Trust include the accounts of Simmons, its wholly owned subsidiary. All inter-entity transactions have been eliminated.

(b) Cash and cash equivalents:

Cash and cash equivalents consist of cash on hand, bank balances and short-term investments with an original maturity of three months or less.

Short-term investments are carried at cost plus accrued interest.

(c) Inventories:

Raw materials and spare parts are carried at the lower of cost and replacement cost. Finished goods and work in process are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method.

(d) Property, plant and equipment:

Property, plant and equipment are stated at cost. Amortization is provided using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	30 years
Machinery and equipment	1 – 15 years
Machinery and equipment under capital leases	5 – 15 years
Leasehold improvements	Over life of lease

Assets under development are not amortized until the assets are available for use.

Simmons reviews property, plant and equipment for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the undiscounted future cash flows expected to result from the use and eventual disposition of a group of assets is less than its carrying amount, it is considered to be impaired. An impairment loss is measured as the amount by which the carrying amount of the group of assets exceeds its fair value.

(e) Employee future benefits:

Simmons administers a registered combined non-contributory defined benefit and defined contribution pension plan for substantially all of its full-time employees. Under the registered defined benefit plan segment, benefits are based upon earnings and years of credited service.

Simmons also sponsors a retirement compensation arrangement ("RCA") for certain senior officials. The RCA provides benefits in addition to the Simmons pension plan.

In addition, Simmons funds a multiemployer defined pension plan for certain employees.

No retirement benefits other than pensions are provided to employees.

Simmons accrues its obligations under employee benefit plans as the employees render the services necessary to earn the pension benefits. Simmons has adopted the following policies:

- (i) The cost of pension benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages.
- (ii) For the purpose of calculating expected return on plan assets, those assets are valued at fair values.
- (iii) The initial net transition asset and past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at January 1, 1999 and at the date of the amendment, respectively.
- (iv) The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees, which for the registered defined benefit plan segment is 16 years and for the RCA is seven years.
- (v) When an event gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

Defined contribution plan accounting is applied to the multiemployer defined benefit plan for which Simmons is a participant.

Years ended December 31, 2003 and 2002 (Tabular amounts in thousands of dollars, except per unit information)

1. Significant accounting policies (continued):

(f) Deferred finance charges:

Deferred finance charges are costs incurred by Simmons for arranging and issuing, to the Trust, 12% unsecured subordinated notes. Deferred finance charges are amortized over the term of the notes, being 30 years. Accumulated amortization as at December 31, 2003 is \$527,000 (2002 – \$442,000).

(g) Intangible assets:

Intangible assets acquired either individually or with a group of other assets are initially recognized and measured at cost. The cost of a group of intangible assets acquired in a transaction, including those acquired in a business combination that meet the specified criteria for recognition apart from goodwill, is allocated to the individual assets acquired based on their relative fair values.

In March 2002, The Canadian Institute of Chartered Accountants ("CICA") issued a Notice relating to the transitional provisions of the new accounting standards for Goodwill and Other Intangible Assets, Handbook Section 3062, that allows for intangible assets under certain circumstances to be reclassified apart from goodwill. The Trust has reclassified \$25,416,000 of its goodwill to license agreement under the guidance of this Notice.

Intangible assets with indefinite useful lives are not amortized and are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test compares the carrying amount of the intangible asset with its fair value, and an impairment loss is recognized in income for the excess, if any. Simmons' licence agreement has an indefinite useful life.

Intangible assets with finite useful lives are amortized over their useful lives.

(h) Goodwill:

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to Simmons' reporting unit that is expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of the reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the statement of income before extraordinary items and discontinued operations.

(i) Stock-based compensation:

The Trust has an option plan for directors, officers and employees (collectively "employees") of Simmons, which is described in note 8(b). The Trust has elected to apply the settlement method of accounting for employee options. Under the settlement method, no compensation cost is recorded on the grant of options to employees to purchase trust units, and consideration paid by employees on the exercise of options or the purchase of units is recorded in unitholders' equity.

Pro forma disclosures of the effect of the application of the fair value-based method for employee options granted on or after January 1, 2002 are required when options are not accounted for using the fair value-based method. For purposes of the pro forma disclosures, compensation cost is allocated on a pro rata basis over the vesting period of the options.

(j) Income taxes:

Simmons uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

(k) Revenue recognition:

Revenue from sales of products is recognized when title passes to customers, which is at the time goods are shipped.

Years ended December 31, 2003 and 2002 (Tabular amounts in thousands of dollars, except per unit information)

1. Significant accounting policies (continued):

(l) Net income per unit:

Basic net income per unit has been calculated using the weighted average number of units outstanding of 7,728,918 (2002 – 7,681,268).

Diluted net income per unit has been calculated using the treasury stock method as follows:

	Weighted number of units outstanding	
	2003	2002
Basic	7,728,918	7,681,268
Effect of options	18,440	27,984
Diluted	7,747,358	7,709,252

Options to purchase 132,000 units at \$11.34 per unit were outstanding in 2003 and 2002 but were not included in the computation of diluted net income per unit because the options' exercise price was greater than the average market price of the units for the reporting year.

(m) Foreign exchange translation:

Monetary items denominated in a foreign currency are translated to Canadian dollars at the exchange rate in effect at the balance sheet date and non-monetary items are translated at the rate of exchange in effect when the assets were acquired or obligations incurred. Revenue and expenses are translated at the rate in effect at the time of the transaction. Foreign exchange gains and losses are included in income.

(n) Derivative financial instruments:

Simmons uses derivative financial instruments to reduce its exposure to fluctuations in U.S. dollar exchange rates. Simmons enters into U.S. dollar future exchange contracts and U.S. dollar option contracts, as disclosed in note 12(c). Simmons does not hold or issue derivative financial instruments for trading or speculative purposes.

Simmons accounts for its derivative financial instruments using the settlement method under hedge accounting.

(o) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

(p) Recent accounting pronouncements:

(i) Hedging relationships:

In November 2001, the CICA issued Accounting Guideline 13, "Hedging Relationships" ("AcG-13"), and in November 2002, the CICA amended the effective date of the guideline. AcG-13 establishes new criteria for hedge accounting and will apply to all hedging relationships in effect on or after January 1, 2004. Effective January 1, 2004, Simmons will re-assess all hedging relationships to determine whether the criteria are met or not and will apply the new guidance on a prospective basis. To qualify for hedge accounting, the hedging relationship must be appropriately documented at the inception of the hedge and there must be reasonable assurance, both at the inception and throughout the term of the hedge, that the hedging relationship will be effective. Effectiveness requires a high correlation of changes in fair values or cash flows between the hedged item and the hedging item.

(ii) Stock-based compensation:

In 2003, the CICA amended Handbook Section 3870, "Stock-based Compensation and other Stock-based Payments", to require the recording of compensation expense on the granting of all stock-based compensation awards, including stock options to employees calculated using the fair-value method. Simmons will adopt this standard on January 1, 2004, retroactively without restatement, and, accordingly, will record a charge to opening deficit on January 1, 2004 of \$223,000 related to options granted on or after January 1, 2002 (note 8(b)).

(q) Comparative figures:

Certain 2002 comparative figures have been reclassified to conform with the financial statement presentation adopted in 2003.

Years ended December 31, 2003 and 2002 (Tabular amounts in thousands of dollars, except per unit information)

2. Cash and cash equivalents:

The major components of cash and cash equivalents are as follows:

	2003	2002
Cash	\$ 1,355	\$ 40
Short-term investments	499	1,422
	\$ 1,854	\$ 1,462

Short-term investments consist of bankers' acceptances, maturing up to January 5, 2004, and earning interest at an average rate of 2.60% (2002 – 2.68%).

3. Inventories:

	2003	2002
Raw materials	\$ 2,514	\$ 3,246
Work in process	280	349
Finished goods	1,254	1,088
Spare parts	1,086	967
	\$ 5,134	\$ 5,650

4. Long-term accounts receivable:

	2003	2002
Long-term accounts receivable	\$ 1,979	\$ 2,584
Less current portion	1,431	1,616
	\$ 548	\$ 968

Long-term accounts receivable are instalment payments under conditional sales agreements made with hotel property owners. The amounts receivable are due at various dates up to August, 2006 and bear interest at the chartered bank's prime rate plus 2% to 3%. The agreements are registered for security purposes in each province under the respective Personal Property Security Acts.

5. Property, plant and equipment:

2003	Cost	Accumulated amortization	Net book value
Land and buildings	\$ 6,103	\$ 1,259	\$ 4,844
Machinery and equipment	14,648	8,811	5,837
Machinery and equipment under capital leases	7,052	2,091	4,961
Leasehold improvements	655	207	448
	\$ 28,458	\$ 12,368	\$ 16,090
2002	Cost	Accumulated amortization	Net book value
Land and buildings	\$ 6,267	\$ 1,067	\$ 5,200
Machinery and equipment	12,478	6,540	5,938
Machinery and equipment under capital leases	7,352	2,263	5,089
Leasehold improvements	622	166	456
	\$ 26,719	\$ 10,036	\$ 16,683

Included in machinery and equipment and machinery and equipment under capital leases is \$474,000 (2002 – \$631,000) of assets under development. These assets are not yet available for use and are not being amortized.

During 2003, Simmons entered into a sale transaction to dispose of its Regina distribution centre. The Regina distribution centre is classified as property, plant and equipment held for sale and is recorded at its fair value less costs to sell on the consolidated balance sheet as at December 31, 2003. The sale transaction closed on February 2, 2004.

Years ended December 31, 2003 and 2002 (Tabular amounts in thousands of dollars, except per unit information)

6. Employee future benefits:

Information about Simmons' pension benefit plans, which comprise the registered defined benefit plan segment and the RCA, is as follows:

	Pension benefit plans	
	2003	2002
Accrued benefit obligation:		
Balance, beginning of year	\$ 15,858	\$ 14,263
Current service cost	864	830
Interest cost	1,029	932
Benefits paid	(1,007)	(1,032)
Actuarial losses	1,693	465
Plan amendments	-	400
Balance, end of year	\$ 18,437	\$ 15,858
Plan assets:		
Fair value, beginning of year	\$ 14,043	\$ 15,237
Annual return on plan assets	1,723	(527)
Employer contributions, net	1,242	365
Benefits paid	(1,007)	(1,032)
Fair value, end of year	\$ 16,001	\$ 14,043
Funded status - (deficit)	\$ (2,436)	\$ (1,815)
Unamortized net accumulated experience loss	4,216	3,425
Unamortized past service costs	789	849
Unamortized transitional asset, net	(2,143)	(2,314)
Accrued benefit asset	\$ 426	\$ 145

As at December 31, 2003, the registered defined benefit plan segment had an accrued benefit obligation of \$648,000 (2002 - \$754,000).

The significant actuarial assumptions adopted in measuring Simmons' accrued benefit obligations are as follows (weighted average assumptions as of December 31):

	Pension benefit plans	
	2003	2002
Discount rate	6.0%	6.5%
Expected long-term rate of return on plan assets	6.8%	6.8%
Rate of compensation increase	3.4%	3.5%

Simmons' net benefit plan expense is as follows:

	Pension benefit plans	
	2003	2002
Current service cost	\$ 864	\$ 830
Interest cost	1,029	932
Expected return on plan assets	(964)	(1,022)
Amortization of past service costs	60	46
Amortization of transitional asset, net	(171)	(171)
Amortization of net accumulated experience loss	142	-
Net benefit plan expense	\$ 960	\$ 615

Simmons' registered defined contribution plan segment expense and the multiemployer defined benefit pension expense for 2003 is \$692,000 (2002 - \$429,000).

7. Credit facility:

	2003	2002
Operating loan	\$ -	\$ 1,325
Demand instalment loan	575	875
	\$ 575	\$ 2,200

Simmons has a credit facility with a major Canadian chartered bank, consisting of an available \$15,000,000 operating line and a \$600,000 demand instalment loan (2002 - \$1,050,000). The operating loan bears interest at the chartered bank's prime rate plus 1/2% per year and the demand instalment loan bears interest at the prime rate plus 3/4% per year. The credit facility is secured by substantially all of the assets of Simmons.

Simmons has drawn on the operating line during the year and as at December 31, 2003, nil (2002 - \$1,325,000) is outstanding. During the year, interest of \$167,000 (2002 - \$165,000) was incurred on the operating loan.

The demand instalment loan outstanding as at December 31, 2003 is \$575,000 (2002 - \$875,000). The demand instalment loan is payable in monthly instalments of \$25,000. Interest on the demand instalment loan amounted to \$39,000 during the year (2002 - \$50,000).

Years ended December 31, 2003 and 2002 (Tabular amounts in thousands of dollars, except per unit information)

8. Unitholders' equity:

	2003	2002
Trust units (a)	\$ 72,413	\$ 72,317
Deficit	(4,996)	(6,477)
	\$ 67,417	\$ 65,840

Deficit is comprised of cumulative income less total distributions.

- (a) Trust units:
 Authorized:
 Unlimited trust units
 Issued:

	2003		2002	
	Number	Amount	Number	Amount
Trust units, beginning of year	7,721,000	\$ 72,317	7,670,000	\$ 71,827
Issuance of trust units on exercise of options	10,000	96	51,000	490
Trust units, end of year	7,731,000	\$ 72,413	7,721,000	\$ 72,317

All trust units share equally in all distributions from the Trust and carry equal voting rights. No conversion, retraction or pre-emptive rights are attached to the trust units.

- (b) Options:

On May 21, 1998, the unitholders approved the Trust Unit Option Plan (the "Option Plan"). The Option Plan is administered by the Compensation Committee of the Board of Directors of Simmons in its capacity as Administrator of the Trust. Under the Option Plan, options to acquire up to 765,500 trust units may be granted to directors, officers and employees at a price equal to the closing market value of the trust units on the preceding day upon which the options are granted. One-third of the options granted may be exercised at any time subsequent to each of the first, second and third anniversaries of the grant date. Immediate vesting of all options granted is deemed to have occurred immediately prior to the occurrence of a change in control of the Trust, as defined in the Option Plan. The options expire within seven years of the grant date. As at December 31, 2003, 169,500 (2002 - 219,500) options are available to be granted.

The following summarizes the options outstanding:

	2003		2002	
	Number of options and units	Weighted average exercise price per unit	Number of options and units	Weighted average exercise price per unit
Outstanding, beginning of year	480,000	\$ 10.51	408,000	\$ 10.12
Granted	132,000	9.45	132,000	11.34
Exercised	(10,000)	9.59	(51,000)	(9.60)
Expired	(82,000)	10.14	(9,000)	(10.42)
Outstanding, end of year	520,000	10.31	480,000	10.51
Options exercisable, end of year	300,000	\$ 10.39	301,667	\$ 10.16

These options will expire between November 16, 2005 and October 21, 2010.

The Trust applies the settlement method to account for options and, accordingly, no compensation cost has been recorded. If the Trust accounted for the options granted in 2003 and 2002 using the fair value-based method, the Trust's net income and net income per unit would be reduced to the pro forma amounts as follows:

	2003	2002
Reported net income	\$ 9,364	\$ 11,422
Deduct:		
Compensation cost	80	143
Pro forma net income	\$ 9,284	\$ 11,279
Pro forma net income per unit:		
Basic	\$ 1.20	\$ 1.47
Diluted	1.20	1.46

The grant date fair market value of the options issued in 2003 was \$1.01 per unit (2002 - \$1.10 per unit).

Years ended December 31, 2003 and 2002 (Tabular amounts in thousands of dollars, except per unit information)

8. Unitholders' equity (continued):

For purposes of the above pro forma disclosures, the options granted were valued using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2003	2002
Risk-free interest rate	4.1%	4.1%
Expected volatility	20.2%	22.1%
Expected life	5 years	4 years
Expected dividends	9.2%	11.0%

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Option-pricing models require estimates which are highly subjective, including expected volatility of the underlying stock. The Trust bases estimates of volatility on historical rates trended into future years. Changes in assumptions can materially affect estimates of fair values.

9. Distributions to unitholders:

On June 13, 2002, the Trust began making regular monthly distributions to unitholders of record as of the last day of each month. Previously, the Trust made quarterly distributions to unitholders. Distributable cash of the Trust is equal to interest, dividends and repayments of capital from Simmons, less expenses of the Trust.

Distributions to Trust unitholders are calculated and recorded on an accrual basis.

Distributions for the year ended December 31, 2003 are as follows:

Declaration date	Payment date	Amount per unit	Total
January 21, 2003	February 14, 2003	\$ 0.10	\$ 772
February 18, 2003	March 14, 2003	0.10	772
March 19, 2003	April 15, 2003	0.10	773
April 17, 2003	May 15, 2003	0.08	618
May 15, 2003	June 13, 2003	0.08	618
June 19, 2003	July 15, 2003	0.08	619
July 22, 2003	August 15, 2003	0.08	619
August 15, 2003	September 15, 2003	0.08	618
September 16, 2003	October 15, 2003	0.08	618
October 21, 2003	November 14, 2003	0.08	618
November 18, 2003	December 15, 2003	0.08	619
December 11, 2003	January 15, 2004	0.08	619
		\$ 1.02	\$ 7,883

Distributions for the year ended December 31, 2002 were as follows:

Declaration date	Payment date	Amount per unit	Total
March 15, 2002	April 15, 2002	\$ 0.25	\$ 1,918
May 23, 2002	June 14, 2002	0.25	1,918
June 13, 2002	July 15, 2002	0.10	767
July 22, 2002	August 15, 2002	0.10	767
August 9, 2002	September 13, 2002	0.10	768
September 16, 2002	October 15, 2002	0.10	769
October 21, 2002	November 15, 2002	0.10	771
November 19, 2002	December 13, 2002	0.10	772
December 16, 2002	January 15, 2003	0.20	1,544
		\$ 1.30	\$ 9,994

Simmons distributes its available cash to the Trust based on cash provided by its operations, less capital expenditures, working capital reserves and other amounts considered advisable by the Board of Directors of Simmons.

Years ended December 31, 2003 and 2002 (Tabular amounts in thousands of dollars, except per unit information)

9. Distributions to unitholders (continued):

Cash distributions for the years ended December 31, 2003 and 2002 were determined as follows:

	2003	2002
Net income	\$ 9,364	\$ 11,422
Items not affecting cash:		
Amortization:		
Plant and equipment	2,566	2,610
Deferred finance charges	85	85
Gain on sale of property, plant and equipment	(18)	(20)
Employee future benefits	(281)	250
Future income taxes	474	550
	12,190	14,897
Capital expenditure related payments	(2,449)	(3,037)
	9,741	11,860
Increase in working capital reserve	(1,858)	(1,866)
Cash distributions	\$ 7,883	\$ 9,994
Cash distributions per unit:		
Basic	\$ 1.02	\$ 1.30
Diluted	1.02	1.30

10. Commitments:

Simmons leases various facilities and equipment. Future minimum payments, by fiscal year and in aggregate, under these non-cancellable leases are as follows:

(a) Capital leases:

Year ending December 31:	
2004	\$ 1,602
2005	892
2006	752
2007	461
2008	262
Total minimum lease payments	3,969
Less amounts representing interest at rates between 6.7% and 9.6%	476
Present value of net minimum lease payments	3,493
Less current portion included in accounts payable and accrued liabilities	1,381
	\$ 2,112

(b) Operating leases:

Year ending December 31:	
2004	\$ 2,542
2005	2,466
2006	2,067
2007	1,988
2008	2,095
Thereafter	8,669
Total minimum lease payments	\$ 19,827

Years ended December 31, 2003 and 2002 (Tabular amounts in thousands of dollars, except per unit information)

11. Income taxes:

The Trust is not taxable on any income that is distributed to unitholders. Simmons is taxable on its income at Canadian statutory tax rates.

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates to income before income taxes. The reasons for the differences are as follows:

	2003	2002
Canadian statutory tax rate	35.8%	38.1%
Income before income taxes	\$ 11,733	\$ 14,722
Computed income taxes	\$ 4,200	\$ 5,609
Increase (decrease) resulting from:		
Income distributed to unitholders not subject to tax in the Trust	(2,080)	(2,218)
Manufacturing and processing profits deduction	(136)	(341)
Non-deductible expenses	133	154
Large Corporations Tax	86	148
Adjustment to future tax assets and liabilities for enacted changes in tax rates	232	-
Other	(66)	(52)
Income tax expense	\$ 2,369	\$ 3,300
Consisting of:		
Current	\$ 1,895	\$ 2,750
Future	474	550
	\$ 2,369	\$ 3,300

The components of future income taxes, which are the result of temporary differences between the carrying values and the tax values of assets and liabilities, are as follows:

	2003	2002
Future income tax assets:		
Inventories	\$ 23	\$ 22
Accounts payable and accrued liabilities	154	64
	177	86
Future income tax liabilities:		
Accounts receivable	176	234
Property, plant and equipment	1,451	1,546
Employee future benefits	142	46
Deferred finance charges	676	674
License agreement and goodwill	3,250	2,630
	5,695	5,130
Future income taxes	\$ (5,518)	\$ (5,044)

Years ended December 31, 2003 and 2002 (Tabular amounts in thousands of dollars, except per unit information)

12. Financial instruments:

(a) Interest rate risk:

Simmons has exposure to interest rate risk as its credit facility (note 7) is subject to a floating interest rate based on the prime rate of a major Canadian chartered bank plus 1/2% to 3/4%.

(b) Credit risk:

(i) At December 31, 2003, Simmons' four major customers accounted for 61% (2002 – 59%) of the outstanding accounts receivable balances and 51% (2002 – 55%) of revenue.

Credit risk is controlled by establishing and monitoring customers based on approved credit limits. Anticipated bad debts have been provided for in an allowance for doubtful accounts.

(ii) Simmons is also exposed to credit risk in the event of non-performance by its counterparty to the U.S. dollar exchange contracts and U.S. dollar option contracts (note 12(c)). Simmons' risk is mitigated by dealing with a counterparty that is a major Canadian chartered bank.

(c) Foreign exchange risk:

Simmons enters into U.S. dollar future exchange contracts and U.S. dollar option contracts to manage its exposure to currency rate fluctuations. There were no U.S. dollar future exchange contracts outstanding at December 31, 2003.

The outstanding U.S. dollar option contracts expiring up to September 20, 2004 (note 12(b)(iii)) are as follows:

Position	Options	Notional amount	Exercise price
Buy	Call	\$ 8,655	\$ 1.44
Sell	Put	11,381	1.42

(d) Fair values:

The carrying values of short-term investments, accounts receivable, operating loan, accounts payable and accrued liabilities and distributions payable to unitholders approximate their fair values due to the short-term maturities of these instruments.

The carrying value of long-term accounts receivable approximates its fair value.

The carrying value of the demand instalment loan approximates its fair value since interest is subject to a floating interest rate.

The fair value of capital lease obligations is estimated using discounted cash flow analysis based on Simmons' current incremental borrowing rates for similar types of arrangements. The carrying value of capital lease obligations approximates its fair value.

The fair value of the outstanding U.S. dollar option contracts is estimated as the amount of any gains or losses that would result if settlement were to take place at the balance sheet date. At December 31, 2003, a settlement loss of \$845,000 exists on the U.S. dollar option contracts. Simmons does not intend to settle any of these contracts prior to maturity (note 1(n)).

Directors of Simmons Canada Inc.

John B. Newman^{(1) (2) (3)}
 Terry H. Pace⁽²⁾
 Randall G. Provost^{(1) (2) (3)}
 E. Duff Scott^{(1) (2) (3)}

(1) Member of Audit Committee
 (2) Member of Compensation Committee
 (3) Member of Corporate Governance Committee

Senior Officers of Simmons Canada Inc.

John B. Newman
 Chairman of the Board

Terry H. Pace
 President and Chief Executive Officer

Gerald T. Costigan
 Vice-President and Chief Financial Officer

Ronald W. Dennis
 Vice-President – Marketing

Wade O. Dickson
 Vice-President – Manufacturing

David C. Puttock
 Vice-President – Human Resources

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Stock Listing

Toronto Stock Exchange

Trust Unit Symbol

"SMN.UN"

Trustee

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Registrar and Transfer Agent

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